



External Relations Department

ERD/M&PRD/PR/01/2021-10

February 10, 2021

SBP Modernizes Foreign Exchange Regulations to facilitate Start-ups, Fintechs and Exports

State Bank of Pakistan (SBP) has notified revisions in chapter 20 of the Foreign Exchange Manual to facilitate Start-ups, Fintechs and Exports. The new policy for equity investment abroad will attract foreign direct investment through the establishment of holding companies by Pakistani fintechs and startups; support exports by facilitating exporters to establish subsidiaries or branch offices outside Pakistan; and, allow resident Pakistanis to acquire sweat equity, amongst other changes to the Foreign Exchange (FX) regulations. Further changes in the foreign exchange regulations will facilitate portfolio investment in the country including mutual funds, Exchange Traded Funds (ETF) and Real Estate Investment Trust (REIT) Funds through Pak rupee based Roshan Digital Account (RDA) and Special Convertible Rupee Account (SCRA).

SBP, after approval of the Federal Government, has introduced three new categories of investment abroad under its revised policy governing equity investment abroad and banks have been authorized to allow remittances under newly introduced categories.

- i. **Establishment of Holding Company abroad by residents for raising capital from abroad:** Pakistan's investment regime is quite liberal that allows full freedom to repatriate profit, dividend and capital; however, some international investors prefer to invest indirectly through holding company established abroad specially in the Fintech and Startup firms. SBP's revised policy will enable the Pakistani Fintech and startup companies to channelize foreign direct investment in the country by establishing a holding company abroad against remittance of up to USD 10,000 and subsequent swapping of shares to mirror the shareholding of local company in the holding company.
- ii. **Establishment of subsidiary/branch office abroad by export oriented companies/ firms for promoting exports:** The policy will enable the export oriented companies to establish subsidiary/branch office abroad against remittance of 10% of their average annual export earnings of last three calendar years, or USD 100,000 whichever is higher. This will facilitate exploring new and non-traditional markets and capturing more export orders, as international buyers prefer dealing with subsidiaries/ representative offices of foreign companies present in their country. Accordingly, the proposed policy would help in growth of export-oriented companies and boost the exports of the country.
- ii. **Investment abroad by Resident Individuals:** The policy will allow the resident Individuals of Pakistan to acquire equity stake in international firms through share option plans or investment in listed securities subject to observance of annual ceiling of foreign exchange defined in the policy. In case of sweat equity a person can acquire upto twenty percent shareholding in a foreign company. These policy provisions will provide opportunities to individuals to earn foreign exchange for the country in the form of repatriation of dividend/ capital gains to Pakistan.

Investment in Mutual/Private Funds in Pakistan by Non-Residents:

With an objective to attract investment in the country, SBP has allowed the trading of units of funds quoted at Stock Exchange, including Exchange Traded Funds (ETF), Real Estate Investment Trust (REIT) Funds and close-end mutual funds, through Special Convertible Rupee Accounts (SCRA) and PKR version of Roshan Digital Account (NRP Rupee Value Account (NRVA)). These account holders have also been allowed to invest in units of Mutual Funds registered as Open End Schemes (OES) under the management of Asset Management Companies (AMCs) licensed by SECP to provide asset management services.



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Further, SBP has also allowed the private funds established and operated by Private Fund Management Companies licensed by SECP to provide private equity and venture capital fund management services, to issue units of their funds to non-resident investors.

It is expected that these changes will help the mutual fund and private equity fund industry to grow by attracting foreign investment in the country. It will also facilitate overseas Pakistanis with Pak Rupee based Roshan Digital Account (RDA) and the non-residents in general to invest in funds in Pakistan.

Relevant provisions of Chapter 8 and Chapter 20 of Foreign Exchange Manual have been updated, in this regard. The circulars issued to banks announcing above policy measures can be accessed at the following links:

<https://www.sbp.org.pk/epd/2021/FECL1.htm>

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